

GREATER OUACHITA WATER COMPANY

MONROE, LOUISIANA

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED

AUGUST 31, 2013

GREATER OUACHITA WATER COMPANY
AUGUST 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Greater Ouachita Water Company
Monroe, Louisiana 71201

Report on the Financial Statements

We have audited the accompanying statement of financial position of Greater Ouachita Water Company, and related statement of activities, statement of functional expenses, and cash flows for the year ended August 31, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The Company outsourced its billing services to two third party service providers during the fiscal year. We were unable to determine the adequacy of the internal controls over billings of water and sewerage fees since the third party providers did not provide a Report on Controls at a Service Organization under the Statement on Standards for Attestation Engagements No. 16 or other information adequate for gaining an understanding of the service providers' internal controls and it was not feasible to obtain this information by other means. As such, we were unable to determine the effect of the service organizations' internal controls on the Company's water and sewer revenues. Consequently, we were unable to determine whether any adjustments to those amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Greater Ouachita Water Company as of August 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Statement of Revenue and Expenses, Statement of Functional Expenses-By Program, and Statement of Administrative Expenses on pages 23 to 26 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2014 on our consideration of Greater Ouachita Water Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Greater Ouachita Water Company's internal control over financial reporting and compliance.

Johnston, Perry, Johnson & Associates, L.L.P.

JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
June 20, 2014

GREATER OUACHITA WATER COMPANY
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2013

ASSETS

PLANT AND EQUIPMENT

Cost of Systems	57,014,628	
Accumulated Depreciation	(22,275,357)	

<u>NET PLANT AND EQUIPMENT</u>		34,739,271
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INVESTMENTS - CURRENT

Bond Interest Fund	413,930	
Reserve Fund	192,426	
Renewals, Replacements and Extensions Fund	95,156	
Bond Fund Principal	830,001	
Construction Fund	29,390	

<u>TOTAL INVESTMENTS - CURRENT</u>		1,560,903
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CURRENT ASSETS

General Fund Cash	229,550	
Accounts Receivable - Customers (Net)	1,881,978	
Prepaid Expense	140,624	

<u>TOTAL CURRENT ASSETS</u>		2,252,152
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OTHER ASSETS

Unamortized Bond Issue Expense (Note B)	127,514	
Overfunded Pension Benefit	18,267	

<u>TOTAL OTHER ASSETS</u>		<u>145,781</u>
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<u>TOTAL ASSETS</u>		<u>38,698,107</u>
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The accompanying notes are an integral part of these financial statements.

GREATER OUACHITA WATER COMPANY
STATEMENT OF FINANCIAL POSITION (CONTINUED)
AUGUST 31, 2013

LIABILITIES

LONG-TERM DEBT (NOTE D)

Bonds Payable - Series 1994A	160,000
Bonds Payable - Series 97A&B	1,795,000
Bonds Payable - Series 2003	7,705,000
Bonds Payable - Series 2009	11,000,000
Less: Current Maturities of Long-Term Debt	(830,000)

TOTAL LONG-TERM DEBT 19,830,000

FUNDED LIABILITIES

Interest Payable	<u>413,930</u>
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TOTAL FUNDED LIABILITIES 413,930

CURRENT LIABILITIES

Accounts Payable - Trade	772,610
Accounts Payable - West Ouachita Sewer	573,917
Accounts Payable - Other Sewer	66,296
Current Maturities of Long-Term Debt	830,000
Payroll Taxes Payable	2,077
Accrued Insurance	63,026
Line of Credit - Chase	<u>7,941,225</u>

TOTAL CURRENT LIABILITIES 10,249,151

DEFERRED LIABILITIES

Customer Meter Deposits	<u>596,952</u>
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TOTAL DEFERRED LIABILITIES 596,952

TOTAL LIABILITIES 31,090,033

NET ASSETS

UNRESTRICTED NET ASSETS (SURPLUS) 7,608,074

TOTAL LIABILITIES AND NET ASSETS 38,698,107

The accompanying notes are an integral part of these financial statements.

GREATER OUACHITA WATER COMPANY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2013

<u>OPERATING REVENUE</u>		
Charges for Services	8,204,936	
Late Payment Charges	141,052	
Reconnect Charges	102,864	
Sewer Inspection Fees	270	
Water Connect Charges	124,750	
Tapping Fees	<u>126,817</u>	
<u>TOTAL OPERATING REVENUE</u>		8,700,689
<u>COST OF SALES</u>		
Water Purchased	<u>1,340,915</u>	
<u>TOTAL COST OF SALES</u>		<u>1,340,915</u>
<u>GROSS PROFIT</u>		7,359,774
<u>FUNCTIONAL EXPENSES</u>		
Operating Expenses	7,870,437	
Administrative Expenses	<u>910,747</u>	
<u>TOTAL FUNCTIONAL EXPENSES</u>		<u>8,781,184</u>
<u>NET OPERATING PROFIT (LOSS)</u>		(1,421,410)
<u>OTHER REVENUES</u>		
Interest	673	
Sewer Maintenance Agreement	319,559	
Safe Drinking Water Fees Program	58,374	
Miscellaneous	<u>21,530</u>	
<u>TOTAL OTHER REVENUES</u>		<u>400,136</u>
Excess Of Revenues Over Expenses		(1,021,274)
Pension and Retirement Changes Other Than Net Periodic Benefit Cost		<u>37,377</u>
<u>NET INCREASE (DECREASE) IN NET ASSETS</u>		(983,897)
<u>NET ASSETS AT BEGINNING OF YEAR</u>		<u>8,591,971</u>
<u>NET ASSETS AT END OF YEAR</u>		<u>7,608,074</u>

The accompanying notes are an integral part of these financial statements.

GREATER OUACHITA WATER COMPANY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2013

	ADMINISTRATIVE EXPENSES	OPERATING EXPENSES	TOTAL
Operating Contract	-	2,926,171	2,926,171
Power	-	716,156	716,156
Maintenance	-	673,176	673,176
Chemicals	-	331,436	331,436
Testing	-	37,257	37,257
Water Used in Sewer Plant	-	3,370	3,370
Service and Franchise Fees	-	11,120	11,120
Right of Way	-	2,000	2,000
Accounting	20,250	-	20,250
Consulting Fees	80,706	-	80,706
Bank Charges	45,695	-	45,695
Dues and Subscriptions	1,083	-	1,083
Engineering Fees	-	21,766	21,766
Inspection and Supervision Fee	13,778	-	13,778
Insurance	72,287	-	72,287
Interest	-	950,829	950,829
Legal and Administrative	417,142	-	417,142
Miscellaneous	5,000	-	5,000
Office Expenses	537	-	537
Postage	136	-	136
Rent	4,470	-	4,470
Salaries	108,155	-	108,155
Taxes and Licenses	8,459	18,505	26,964
Telephone	8,641	-	8,641
Travel	1,233	-	1,233
Trustee Fees	5,800	-	5,800
Provisions for Bad Debts	-	140,252	140,252
Interest Paid on Customer Accounts	-	9,433	9,433
Pension Expense	117,375	-	117,375
Amortization	-	9,185	9,185
Depreciation	-	2,019,781	2,019,781
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>910,747</u>	<u>7,870,437</u>	<u>8,781,184</u>

The accompanying notes are an integral part of these financial statements.

GREATER OUACHITA WATER COMPANY
STATEMENT OF CASH FLOWS
AUGUST 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (Decrease) in Net Assets		(983,897)
Noncash Items Included in Net Income		
Amortization of Bond Issue Expense		9,185
Depreciation		2,019,781
Changes in:		
Accounts Receivable	116,204	
Prepaid Expenses	(59,939)	
Over-Funded Pension Benefits	(18,267)	
Interest Payable	(10,949)	
Accounts Payable - Trade	(386,063)	
Accounts Payable - Sewers	99,163	
Payroll Taxes	617	
Sales Taxes	-	
Underfunded Pension Benefits	(4,297)	
Accrued Insurance	<u>11,201</u>	
Total Adjustments		<u>(252,330)</u>

NET CASH PROVIDED BY (USED BY)
OPERATING ACTIVITIES

792,739

CASH FLOWS FROM INVESTING ACTIVITIES

Plant and Equipment		(1,931,538)
Investments in Special Funds		<u>(157,140)</u>

NET CASH PROVIDED BY (USED BY)
INVESTING ACTIVITIES

(2,088,678)

CASH FLOWS FROM FINANCING ACTIVITIES

Customer Meter Deposits		(43,120)
Redemption of Bonds Payable		(590,000)
Payments on Line of Credit		(50,000)
Proceeds from Line of Credit		<u>1,767,000</u>

NET CASH PROVIDED BY (USED BY)
FINANCING ACTIVITIES

1,083,880

NET INCREASE (DECREASE) IN CASH

(212,059)

CASH AT BEGINNING OF YEAR

441,609

CASH AT END OF YEAR

229,550

Interest Paid During the Year was \$961,778
Income Taxes Paid During the Year were \$-0-

The accompanying notes are an integral part of these financial statements.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013

NOTE A - HISTORY AND ORGANIZATION:

The Greater Ouachita Water Company was incorporated May 29, 1963, under the laws of the State of Louisiana, as a nonprofit organization. The Company was organized to consolidate various water companies operating in Ouachita Parish (Ouachita Parish Police Jury), a political subdivision of the State of Louisiana, into a single company in order to provide better service to the area residents.

By a contract dated June 12, 1963, between the Greater Ouachita Water Company and the Parish of Ouachita, the Company agreed to acquire and construct a waterworks, sewerage and natural gas system within the Parish. Under terms of the contract, the Parish recognizes the Company's title to the system until all indebtedness of the Company, together with accrued interest thereon, incurred by the Company in the financing of the purchase, extension and improvement of the Company is paid in full. When all such indebtedness of the Company is paid in full, all rights, title and interest of the Company and the system shall vest in the Parish.

An indenture of Mortgage, dated September 1, 1964, was made by and between the Greater Ouachita Water Company and the First National Bank of Commerce in New Orleans, now J.P. Morgan, a national banking association having an office in New Orleans, Louisiana, as trustee. Supplemental Indentures of Mortgage have been made covering additions to the system.

Revenue bonds were issued in six series. Proceeds of the first series (Series 1964) were received on September 23, 1964, and the first purchase of systems was made. Proceeds of the second series (Series 1965) were received on April 12, 1965, and additional properties were added to the system. Proceeds of the third series (Series 1994A) were received on March 16, 1994, and of the fourth series (Series 97A&B) were received on December 11, 1997. Proceeds of the fifth series (Series 2003) were received on August 7, 2003. Proceeds of the sixth series (Series 2009) were received on December 9, 2009.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2013

NOTE A - HISTORY AND ORGANIZATION: (Continued)

The Company began operations September 28, 1964. Currently, it has an agreement with Severn Trent Environmental Services, Inc. of Texas to operate the system.

Officers and directors of the Company and salaries paid to them as officers during the period under review were:

Wood T. Sparks, President	64,088
Philip McQueen, Secretary	12,833
Barry Webb, Treasurer	<u>23,300</u>
<u>Total</u>	<u>100,221</u>

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Method of Accounting

The Company uses the accrual method of accounting in accordance with generally accepted accounting principles in the United States for non-profit organizations.

Depreciation

Depreciation was computed using the straight-line method in amounts sufficient to amortize the cost of the depreciable assets over their estimated useful lives. The estimated useful lives used in computing depreciation are:

Cost of System	25 to 50 Years
Various Equipment	5 to 20 Years

Special Funds

The Indentures of Mortgage requires the Company twice each month to transfer from the general or operating bank accounts all monies in excess of a minimum amount that is shown by the annual budget to be necessary for operating expenses for the current fiscal year to the Trustee for credit to the Principal Fund and Interest Fund.

GREATER OUACHITA WATER COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Special bond funds held by the Trustee are computed as follows:

Special Funds (Continued)

1. Interest Fund until at least six months' interest on all outstanding bonds is accumulated or restored. On August 31, 2013, the balance in the Interest Fund was \$413,930. Interest payable at August 31, 2013 was \$413,930.
2. Construction Improvement Fund, created in the indenture to pay for capital improvements to the system. During the period under review, additions and expenditures made to and from this fund for improvements to the system resulted in a balance of \$29,390.
3. Principal Fund, an amount which when multiplied by the number of such monthly deposits to be made during the next twelve month period will equal the annual requirement for that year. To date, adequate deposits have been made and the requirements of the Indenture of Mortgage have been met.

The annual amount due on September 1, 2014 will be \$830,000.

Deferred Charges and Amortization

Discounts on bonds issued by the Company are being amortized over the term of the bonds. Shown below is an analysis of unamortized bond discounts.

Costs of issuing bonds are being amortized over the term of the bonds:

Total Cost at August 31, 2012		441,252
Less: Prior Year Amortization	304,553	
Less: Current Year Amortization	<u>9,185</u>	
Total Amortization		(313,738)
 Balance at August 31, 2013		 <u>127,514</u>

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents.

Accounts Receivable - Customers

Accounts receivable are reported net of an allowance for doubtful accounts of \$9,523. Management believes that accounts receivable are substantially collectible and requires customers to provide meter deposits. Accounts are reviewed monthly, and management determines which accounts are not collectible. Accounts receivable also includes unbilled revenues of \$566,634, which consist of revenues earned but not billed.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

Income Taxes

The Company, a nonprofit corporation, is exempt from federal and state income taxes under Internal Revenue Code 501(a). Accordingly, no provision for income taxes has been made in the financial statements.

Advertising Expenses

The Company expenses advertising costs as they are incurred. Advertising expenses for the year ended August 31, 2013 were immaterial.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the same year in which the contributions are recognized.

Donated services are recognized as contributions in accordance with professional standards (FASB ASC 958-605-25-16), if the services create or enhance a non-financial asset or require specialized skills, are provided by entities or persons possessing those skills and would need to be purchased if they were not donated.

Donated facilities are recognized as contributions in accordance with professional standards (FASB ASC 958-605-52-24).

During the fiscal year ended August 31, 2013, no contributions were received by the Company that meet the criteria for recognition in these financial statements.

NOTE C - PLANT AND EQUIPMENT:

Plant and equipment is stated at the acquisition costs of the assets of the company, with the exception of the systems of Lakeview Utilities, Inc., North Louisiana Production Corporation, and B & W Utilities, Inc., which were contributed by their owners and are stated at their appraised value. Maintenance and repairs are charged to operations currently and major renewals and betterments are

GREATER OUACHITA WATER COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2013

NOTE C - PLANT AND EQUIPMENT: (Continued)

capitalized. Additions to the system during the year ended August 31, 2013, totaled \$1,931,538. Shown below is an analysis of the cost of the system by expenditures from various funds:

	<u>Balance 08/31/12</u>	<u>During Year</u>	<u>Balance 08/31/13</u>
Bond Proceeds Series 1964	1,922,208	-	1,922,208
Bond Proceeds Series 1965	907,211	-	907,211
General Fund	37,045,646	1,931,538	38,977,184
Renewals, Replacements and Extensions Fund	3,272,892	-	3,272,892
Improvements Fund	8,237,642	-	8,237,642
Revenue Fund	35,016	-	35,016
1994A Fund	1,670,072	-	1,670,072
97A&B Fund Contributions	1,911,211	-	1,911,211
Lakeview Utilities, Inc. Water and Sewer System	196,000	-	196,000
North Louisiana Production Corp. Water System	71,800	-	71,800
B & W Utilities, Inc. Water System	<u>44,658</u>	<u>-</u>	<u>44,658</u>
	55,314,356	1,931,538	57,245,894
Less: Retirements Gas System Transferred	<u>(231,266)</u>	<u>-</u>	<u>(231,266)</u>
<u>Total</u>	<u>55,083,090</u>	<u>1,931,538</u>	<u>57,014,628</u>

The details of plant and equipment are as follows:

Water Mains and Extensions	21,000,730
Water Service Lines	3,152,300
Water Meters	1,021,743
Water Wells	12,796,323
Water Chlorine Equipment	191,690
Meter Stations	170,637
Sewer	16,672,762
Other Equipment	587,431
Land	<u>1,421,012</u>
<u>Total</u>	<u>57,014,628</u>

NOTE D - LONG-TERM DEBT:

The Company originally issued bonds known as "Waterworks and Natural Gas System Revenue Bonds" in two series. Series 1964 bonds totaled \$2,270,000 and were issued September 1, 1964.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2013

NOTE D - LONG-TERM DEBT: (Continued)

They were paid off as of September 1, 1999. Series 1965 bonds totaled \$1,050,000 and were issued March 1, 1965. They were paid off as of September 1, 1999.

On March 16, 1994, the Company issued bonds known as "Greater Ouachita Water Company Waterworks and Natural Gas System bonds, Series 1994A" in the amount of \$2,000,000. Interest is paid semi-annually on March 1 and September 1. The interest rate is 6.25% through December 10, 1997, and thereafter shall bear interest at the rate determined by the Trustee on March 1, 2000, by adding 400 basis points to the five-year constant maturity treasury and multiplying such amount by the remainder of one minus the corporate tax rate applicable to Central Bank, now J. P. Morgan, Monroe, Louisiana on such date. Principal shall be payable annually on September 1 in each year commencing September 1, 1995. Final payment was due in September 2013.

On December 11, 1997, the Company issued bonds known as "Waterworks and Natural Gas Revenue Bonds of the Greater Ouachita Water Company Series 1997" in the amount of \$3,500,000. Interest is paid semi-annually on March 1 and September 1. The interest rate shall begin at 5.675%. Final payment is due in September 2017.

On August 7, 2003, the Company issued bonds known as "Waterworks and Natural Gas System Revenue Bonds Series 2003" in the amount of \$9,000,000. Interest is paid semi-annually on March 1 and September 1. The interest rate shall begin at 3.950%. Final payment is due in September 2024.

On December 9, 2009, the Company issued bonds known as "Waterworks and Natural Gas System Revenue Bonds Series 2009" in the amount of \$11,000,000. Interest is paid semi-annually on March 1 and September 1. The interest rate shall begin at 4.100%. Final payment is due in September 2029.

The Company has a line of credit with Chase Bank. The line of credit is unsecured with interest at one month LIBOR rate plus 1.25%. This line of credit was obtained to fund system

GREATER OUACHITA WATER COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2013

NOTE D - LONG-TERM DEBT: (Continued)

improvements until new bonds are issued. The balance of the line of credit at August 31, 2013 was \$7,941,225. The line of credit is renewed annually.

During the year ended August 31, 2013, \$590,000 in bonds were redeemed, bringing the total of all bonds redeemed to \$8,145,000. The balance of bonds outstanding at August 31, 2013 was \$20,660,000.

Principal payments for the next five years are as follows:

<u>Year Ended</u> <u>August 31</u>	<u>Amount</u>
2014	830,000
2015	870,000
2016	910,000
2017	955,000
2018	1,000,000

The fair value of the long-term debt is estimated based on the current rates offered to the Company for debt of the same remaining maturities. At August 31, 2013, the fair value of the long-term debt approximates the amounts recorded in the financial statements.

NOTE E - REGULATORY COMPLIANCE - LDHH:

Greater Ouachita Water Company has received Administrative Orders from the Louisiana Department of Health and Hospitals (LDHH) and/or the United States Environmental Protection Agency (EPA) regarding the following water systems owned and/or operated by the Company: Prairie Ridge, Huntington Park, South Monroe, Sterlington, Brownville, West Highway 80 Ark Road, Kiroli-D'Arbonne. These are all groundwater systems that were not in compliance with the contaminate limitations set by EPA relative to total trihalomethanes (TTHMS) and/or haloacetic acids five (HAA5). The Company was given time to bring these systems into compliance with the regulations. The Company has employed the engineering firms of S.E. Huey Co. and Lazenby & Associates, Inc. to perform

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2013

NOTE E - REGULATORY COMPLIANCE - LDHH: (Continued)

studies to determine the best method of treatment and/or alternative water sources to bring these systems into compliance. The Company has begun work to achieve compliance, and the Company expects to have the systems compliant by the applicable deadlines set by LDHH and/or EPA.

LDHH has issued Greater Ouachita Water Company (a) a Class 1 Sanitary Survey Notice of Deficiencies/Notice of Violations (NODs/NOVs) for the North Monroe Et Al WS, PWS ID LA1073035 (North Monroe System), and (b) a Class 1 Sanitary Survey NODs/NOVs for the South Monroe WS GOWC Public Water System, PWS ID LA1073046 (South Monroe System), both owned and operated by the Company. While the Company has generally responded to the NODs/NOVs, the Company has requested an extension from LDHH for the Company's preparation and implementation of formal cross connection prevention program(s) for the two systems and submittal of the cross connection prevention plan(s). LDHH granted the Company an extension until June 30, 2014 to comply with the formal cross connection prevention program. In addition, the Company requested a variance from LDHH for the requirement in the NODs/NOVs that an alternate power source (which could cost more than \$245,000) be provided for the North Monroe System. That variance request was denied, and the Company timely filed an adjudicatory hearing request to appeal the denial. These proceedings are currently pending.

NOTE F - PENSION PLAN:

A non-contributory defined benefit pension plan (the Plan) was put into effect on October 1, 2010. All employees of the Company are eligible to participate. The Company's funding policy is to contribute to the pension plan a monthly amount necessary to meet or exceed the minimum funding standards under the Employee Retirement Income Security Act.

Contributions to the benefit plan are invested in a managed asset portfolio consisting of cash and bonds. The investments are conservative and require maximum income from

GREATER OUACHITA WATER COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2013

NOTE F - PENSION PLAN: (Continued)

their investments. Moderate growth will occur since the portfolio has an income with growth objective. Short-term volatility will come from changes in bond prices due to interest rate fluctuations in the marketplace.

The Plan's investment policy is periodically reviewed and revised to reflect the best interest of the Plan's participants and beneficiaries. At present, investments of the Plan's assets are divided into four categories: Cash Equivalents, Mutual Funds - Fixed Income, Mutual Funds - Equity, and Mutual Funds - International Stock Fund.

At August 31, 2013, the breakdown of the fair value of plan assets held is as follows:

	<u>Amount</u>	<u>Percentage</u>
Cash Equivalents	15,957	3.94%
Mutual Funds - Fixed Income	218,673	54.02%
Mutual Funds - Equity	153,539	37.93%
Mutual Funds - International Stock Fund	<u>16,640</u>	<u>4.11%</u>
Total Plan Assets	<u>404,809</u>	<u>100.00%</u>

All investments, excluding Cash Equivalents, are valued using market prices. Cash Equivalents are reported at cost.

For the year ended August 31, 2013, the net return on the Plan assets was \$57,989. Greater Ouachita Water Company expects the long-term rate of return on the assets to be 5.00%. The assumed overall rate of return takes into account long-term return expectations of the underlying asset classes within the investment portfolio mix, and the expected duration of the Plan's liabilities. Return expectations are forward looking and, in general, not much weight is given to short-term experience. Unless there is a drastic change in investment policy or market environment, the assumed investment return of 5.00% on the Plan assets is expected to remain broadly the same each year. Generally accepted accounting principles require an actuarially determined assessment of the periodic cost.

GREATER OUACHITA WATER COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2013

NOTE F - PENSION PLAN: (Continued)

The following table sets forth information on the funded status, amounts recognized in the financial statements, and weighted average assumptions related to Greater Ouachita Water Company's pension plan for the year ended August 31, 2013.

1.	Changes in Benefit Obligation	
	a. Benefit Obligation at August 31, 2012	303,657
	b. Employer Service Cost	82,606
	c. Employee Contributions for the Year	-
	d. Interest Cost	11,429
	e. Amendments	-
	f. Actuarial (gain/loss (includes loss=13,390 Assumption change)	13,390
	g. Changes in Actuarial Cost Methods and/or Systems	-
	h. Benefits Paid	(24,540)
	i. Benefit Obligation at August 31, 2013 (Sum a through h)	386,542
2.	Change in Plan Assets	
	a. Assets at August 31, 2012	299,360
	b. Actual Return on Plan Assets	57,989
	c. Expenses	-
	d. Employer Contributions for Fiscal Year 2013	72,000
	e. Employee Contributions	-
	f. Benefits Paid	(24,540)
	g. Assets at August 31, 2013 (Sum a through f)	404,809
3.	Funded (Unfunded) Status at August 31, 2013	
	a. (Accrued) Prepaid Pension Cost	121,135
	b. Balance in Accumulated Other Comprehensive Income Account	
	1. Unrecognized Net Actuarial Gain(Loss)	(102,868)
	2. Unrecognized Prior Service (Cost)Income	-
	3. Unrecognized Transition (Obligation)Asset	-
	4. Total Unrecognized (Expense)Asset	(102,868)
	c. Funded Status (Unfunded PBO)at August 31, 2013 (a. + b.4.)	18,267

GREATER OUACHITA WATER COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2013

NOTE F - PENSION PLAN: (Continued)

4.	Weighted-Average Assumptions at Year-End	
a.	Interest Rate Used to Calculate Net Periodic Pension Cost	3.83%
b.	Interest Rate Used to Calculate Year-End Disclosure Information (Discount Rate)	3.75%
c.	Expected Return on Plan Assets	5.00%
d.	Salary Scale to Calculate NPPC for FY that Began September 1, 2012	5.00%
e.	Salary Scale for Disclosure Information as of August 31, 2013	5.00%
5.	Components of Net Periodic Benefit Cost	
a.	Service Cost	82,606
b.	Interest Cost	11,429
c.	Expected Return on Plan Assets	(17,852)
d.	Amortization of Transition (Asset)/Obligation	-
e.	Amortization of Prior Service Cost	-
f.	Recognized Net Actuarial Loss	<u>10,630</u>
g.	Net Periodic Benefit Cost	<u>86,813</u>
6.	Projection of Benefits for Next Ten Fiscal Years	
	<u>Fiscal Years</u>	<u>Projected Benefits</u>
	2014	11,835
	2015	450,210
	2016	11
	2017	16
	2018	22
	Sum of Fiscal Years	
	2019 through 2023	318

7. Contributions for the Fiscal Year beginning September 1, 2013 are not available until that valuation report is completed. In the meantime, a reasonable projection of the minimum contribution for the fiscal year beginning September 1, 2013 would be \$125,000.

The accumulated benefit obligation at August 31, 2013 was \$347,365.

NOTE G - LAWSUITS:

The Company, from time to time, is involved in various other lawsuits incurred by operating in the normal course of business. The outcomes of these lawsuits are not expected to be material.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2013

NOTE H - CONCENTRATION OF RISK:

The Company maintains its cash balances at institutions which are insured by the Federal Deposit Insurance Corporation up to \$250,000. At August 31, 2013, the Company's uninsured cash balance was \$392,676.

Concentration of credit risk with respect to water and sewer billing receivables are limited due to the large number of customers and small balances. The risk is minimized further by customer meter deposits.

NOTE I - RELATED PARTY TRANSACTIONS:

The following related party transactions were incurred in the normal course of business:

Dean Morris, LLP, (of which Wood T. Sparks is Of Counsel), earned \$125,791 for legal services performed for the Company. At August 31, 2013, \$18,086 was accrued and payable for legal services.

Webb & Webb, owned by Barry Webb, CPA, director, earned \$7,750 for accounting services performed for the Company.

Philip McQueen, secretary of the Company, is the son-in-law of Wood T. Sparks, the president of the Company.

Dimos Erskine, LLP (of which Philip McQueen is Of Counsel), earned \$10,934 for legal services performed for the Company.

NOTE J - FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among programs and supporting services benefited. The Company has determined that fund-raising costs are not material.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2013

NOTE K - SUBSEQUENT EVENTS:

Events that occur after the balance sheet date but before the financial statements were issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Company through June 20, 2014, the date the report was available for issue, and concluded the following subsequent events require recognition in the notes to the financial statements:

1. During March 2014, the Company's board of directors approved the purchase of several water and sewer systems with approximately 2,500 customers. Such purchase terms are to be negotiated by the Company president.
2. During May 2014, the Company's board of directors approved for the president to negotiate for the purchase of a site suitable to construct a customer service center for the Company.

NOTE L - UNCERTAIN TAX POSITIONS:

The Company is subjected to examination by various taxing authorities. Management has reviewed the Company's activities and believes that no additional amounts or disclosures are needed, as the effect of any uncertain tax positions is not material to the financial statements.

SUPPLEMENTARY INFORMATION

GREATER OUACHITA WATER COMPANY
STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2013

	<u>WATER SYSTEM</u>	<u>SEWER SYSTEM</u>	<u>TOTAL</u>
<u>OPERATING REVENUE</u>			
Charges for Services	6,765,873	1,439,062	8,204,935
Late Payment Charges	112,842	28,210	141,052
Reconnect Charges	102,864	-	102,864
Sewer Inspection Fees	-	270	270
Water Connect Charges	124,750	-	124,750
Tapping Fees	109,713	17,105	126,818
<u>TOTAL OPERATING REVENUE</u>	<u>7,216,042</u>	<u>1,484,647</u>	<u>8,700,689</u>
<u>DIRECT OPERATING EXPENSES</u>			
Operating Contract	2,413,013	513,158	2,926,171
Power	438,462	277,694	716,156
Maintenance	445,355	227,821	673,176
Chemicals	263,260	68,176	331,436
Testing - Sewer	-	37,257	37,257
Engineering Services	10,680	11,086	21,766
Water Purchased	1,340,915	-	1,340,915
Water Used in Sewer Plant	-	3,370	3,370
Service and Franchise Fees	-	11,120	11,120
Right of Way	-	2,000	2,000
<u>TOTAL DIRECT OPERATING EXPENSES</u>	<u>4,911,685</u>	<u>1,151,682</u>	<u>6,063,367</u>
<u>NET OPERATING INCOME</u>	<u>2,304,357</u>	<u>332,965</u>	<u>2,637,322</u>
<u>ADMINISTRATIVE EXPENSES</u>			
	760,858	149,889	910,747
<u>NET OPERATING PROFIT</u>	<u>1,543,499</u>	<u>183,076</u>	<u>1,726,575</u>
<u>OTHER INCOME</u>			
	76,136	324,000	400,136
<u>OTHER EXPENSES</u>			
	597,850	521,169	1,119,019
<u>NET INCOME BEFORE AMORTIZATION AND DEPRECIATION</u>	<u>1,021,785</u>	<u>(14,093)</u>	<u>1,007,692</u>
<u>AMORTIZATION AND DEPRECIATION</u>			
Amortization of Bond Issue Exp. - 2003	2,782	696	3,478
Amortization of Bond Series - 2009	4,566	1,141	5,707
Depreciation Expense	1,368,013	651,768	2,019,781
<u>TOTAL AMORTIZATION AND DEPRECIATION</u>	<u>1,375,361</u>	<u>653,605</u>	<u>2,028,966</u>

See Independent Auditors' Report.

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JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

GREATER OUACHITA WATER COMPANY
STATEMENT OF REVENUE AND EXPENSES (CONTINUED)
FOR THE YEAR ENDED AUGUST 31, 2013

	<u>WATER SYSTEM</u>	<u>SEWER SYSTEM</u>	<u>TOTAL</u>
<u>EXCESS OF REVENUES OVER EXPENSES</u>	(353,576)	(667,698)	(1,021,274)
Pension and Post Retirement Changes Other than Net Periodic Benefit Cost	<u>29,902</u>	<u>7,475</u>	<u>37,377</u>
<u>NET INCOME FOR THE YEAR</u>	<u>(323,674)</u>	<u>(660,223)</u>	<u>(983,897)</u>

See Independent Auditors' Report.

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JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

GREATER OUACHITA WATER COMPANY
STATEMENT OF FUNCTIONAL EXPENSES - BY PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2013

	ADMINI- STRATIVE EXPENSES	WATER SYSTEM	SEWER SYSTEM	TOTAL
Operating Contract	-	2,413,013	513,158	2,926,171
Power	-	438,462	277,694	716,156
Maintenance	-	445,355	227,821	673,176
Chemicals	-	263,260	68,176	331,436
Testing	-	-	37,257	37,257
Water Used in Sewer Plants	-	-	3,370	3,370
Service & Franchise Fees	-	-	11,120	11,120
Right of Way	-	-	2,000	2,000
Accounting	20,250	-	-	20,250
Consulting Fees	80,706	-	-	80,706
Bank Charges	45,695	-	-	45,695
Dues & Subscriptions	1,083	-	-	1,083
Engineering Fees	-	10,680	11,086	21,766
Inspection & Supervision Fees	13,778	-	-	13,778
Insurance	72,287	-	-	72,287
Interest	-	475,415	475,414	950,829
Legal & Administrative	417,142	-	-	417,142
Miscellaneous	5,000	-	-	5,000
Office Expenses	537	-	-	537
Postage	136	-	-	136
Rent	4,470	-	-	4,470
Salaries	108,155	-	-	108,155
Taxes & Licenses	8,459	2,687	15,818	26,964
Telephone	8,641	-	-	8,641
Travel	1,233	-	-	1,233
Trustee Fees	5,800	-	-	5,800
Provision for Bad Debts	-	112,202	28,050	140,252
Interest Paid on Customer Accounts	-	7,546	1,887	9,433
Pension Expense	117,375	-	-	117,375
Amortization	-	7,348	1,837	9,185
Depreciation	-	1,368,013	651,768	2,019,781
<u>TOTAL</u>	<u>910,747</u>	<u>5,543,981</u>	<u>2,326,456</u>	<u>8,781,184</u>

See Independent Auditors' Report.

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GREATER OUACHITA WATER COMPANY
STATEMENT OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2013

	<u>WATER SYSTEM</u>	<u>SEWER SYSTEM</u>	<u>TOTAL</u>
Accounting	16,200	4,050	20,250
Consulting Fees	64,566	16,140	80,706
Bank Charges	36,556	9,139	45,695
Dues & Subscriptions	866	217	1,083
Inspection & Supervision Fees	11,022	2,756	13,778
Insurance	57,830	14,457	72,287
Legal & Administrative	367,113	50,029	417,142
Miscellaneous	4,000	1,000	5,000
Office Expenses	430	107	537
Postage	109	27	136
Rent	3,576	894	4,470
Salaries	86,524	21,631	108,155
Taxes & Licenses	6,767	1,692	8,459
Telephone	6,913	1,728	8,641
Travel	986	247	1,233
Trustee Fees	3,500	2,300	5,800
Pension Expense	<u>93,900</u>	<u>23,475</u>	<u>117,375</u>
 <u>TOTAL ADMINISTRATIVE EXPENSES</u>	 <u>760,858</u>	 <u>149,889</u>	 <u>910,747</u>

See Independent Auditors' Report.

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JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.

ROWLAND H. PERRY, CPA, APC
CHARLES L. JOHNSON, JR., CPA
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Greater Ouachita Water Company
Monroe, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Greater Ouachita Water Company (a nonprofit organization), which comprise the statement of financial position as of August 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Greater Ouachita Water Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Greater Ouachita Water Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned

costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned cost as item 13-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Greater Ouachita Water Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and is described in the accompanying schedule of findings and responses as item 13-2.

Greater Ouachita Water Company's Response to Finding

Greater Ouachita Water Company's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Greater Ouachita Water Company's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnston, Perry, Johnson & Associates, L.L.P.

JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
June 20, 2014

GREATER OUACHITA WATER COMPANY
CURRENT YEAR SCHEDULE OF AUDIT FINDINGS AND RESPONSES
AUGUST 31, 2013

13-1 Internal Control Finding

Finding: The Company outsources its billings of water and sewerage fees to a third party service organization. During fiscal year ended August 31, 2013, the Company was served by two billing and collection providers.

 Since the two service organizations did not provide a Report on Controls at a Service Organization, or other information adequate for gaining an understanding of the service providers' internal controls, we were unable to determine the adequacy of internal controls over the billings of water and sewerage fees in order to assess risks of errors in the financial statements. Consequently, mistakes could be made and not detected and corrected in a timely manner.

Recommendation: We recommend the Company obtain a Report on Controls at a Service Organization under the Statement on Standards for Attestation Engagements No. 16 and/or other information in order to gain an adequate understanding of the internal controls at the service organizations.

Management's
Corrective
Action Plan: We will contact our service providers and communicate our need for a Report on Controls at a Service Organization under the Statement on Standards for Attestation Engagements No. 16, or have another audit organization provide us information adequate to gain an understanding of the service providers' internal control.

See Independent Auditors' Report.

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GREATER OUACHITA WATER COMPANY
CURRENT YEAR SCHEDULE OF AUDIT FINDINGS AND RESPONSES (CONTINUED)
AUGUST 31, 2013

13-2 Timely Filing of Audit Report

Finding: Louisiana Revised Statute 24:513 requires that the Company prepare and submit its annual audited financial statements to the Louisiana Legislative Auditor within six months of its fiscal year end or February 28, 2014. Due to the internal control issues mentioned in Finding 13-1, the Company was not able to submit its audited financial statements within the six month timeframe which resulted in noncompliance with state law regarding financial reporting.

Recommendation: As mentioned in Finding 13-1, we recommend the Company contact its third party service provider and address the matters indicated in Finding 13-1 to ensure that future audits can be completed and submitted to the Legislative Auditor within the prescribed time period.

**Management's
Corrective
Action Plan:** We will contact our service providers and communicate our need for a Report on Controls at a Service Organization under the Statement on Standards for Attestation Engagements No. 16, or have another audit organization provide us information adequate to gain an understanding of the service providers' internal control.

See Independent Auditors' Report.

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GREATER OUACHITA WATER COMPANY
CORRECTIVE ACTIONS TAKEN ON PRIOR YEAR FINDINGS
AUGUST 31, 2013

INTERNAL CONTROLS

There were no findings or recommendations in the prior year.

COMPLIANCE

12-1

Condition: The audit report was filed late with the Legislative Auditor.

Status: Uncleared

See Independent Auditors' Report.

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JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS